

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 IO-13 NEA-10 PA-01 PRS-01 L-03

H-02 USIE-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 EUR-12 SSO-00

NSCE-00 INRE-00 /111 W

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC IMMEDIATE 7869

C O N F I D E N T I A L MANILA 10841

USADB

FOR NAC AGENCIES

PASS TREASURY FOR ERB"ZINMAN

E.O. 11652: GDS

TAGS: EAID, EFIN

SUBJECT: ADB LENDING RATE AND COMMITMENT CHARGE

REF: (A) MYERS/PAPP JULY 22 TELECON, (B) MANILA 10571,
(C) MANILA 10410, (D) TREASURY 76-89, (E) MANILA 10326,
(F) MANILA 9784

1. ADB PRESIDENT HAS ADVISED THAT PRESENT INDICATIONS ARE
THAT BOARD OF DIRECTORS WILL NOT REPEAT NOT SUPPORT MANAGE-
MENT PROPOSAL TO INCREASE ORDINARY CAPITAL LENDING RATE
FROM 8.75 TO 9.15 PERCENT AS PROPOSED REF E. HE ALSO SAID
FRENCH AND CANADIAN DIRECTORS HAD INDICATED TO HIM THEY
WOULD SUPPORT 9.10 PERCENT RATE THAT HAD BEEN PROPOSED BY
SOME LDC DIRECTORS AS ALTERNATIVE TO MANAGEMENT PROPOSAL.
IN THIS REGARD, PRESIDENT SAYS HE FEARS THAT HE AND UNITED
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STATES MAY BECOME ISOLATED.

2. IN USADB'S VIEW, LENDING RATE ISSUE IS NOT BEING JUDGED ON ITS OWN MERITS AND INDIVIDUAL DIRECTORS ARE PLAYING POLITICS FOR VARIOUS REASONS. FOR EXAMPLE, AUSTRALIAN DIRECTOR APPEARS WILING TO ACCEPT LOWER RATE TO GAIN SUPPORT FOR HIS PROPOSAL TO ABOLISH PENALTY INTEREST RATE FOR SINGAPORE/HONG KONG. FRENCH DIRECTOR IS BEING OBSTREPEROUS ON INTEREST RATE ISSUE BECAUSE HE BELIEVES ADVANCE BORROWING IN U.S. PRIVATE CAPITAL MARKET IS UNNECESSARY AT THIS TIME. IN ADDITION, DIRECTORS FROM KOREA, PHILIPPINES AND PAKISTAN ARE STILL IRRITATED THAT UNITED STATES INSISTED ON RETROACTIVITY OF RATE FOR THREE DEVELOPMENT BANK LOANS APPROVED IN JUNE FOR THEIR RESPECTIVE COUNTRIES.

3. GIVEN ABOVE SITUATION, USADB BELIEVES IT IS ESSENTIAL FOR USG TO CONTACT CERTAIN MEMBER GOVERNMENTS ASAP (I.E., AUSTRALIA, CANADA, FRANCE, GERMANY, JAPAN AND UNITED KINGDOM AMONG DEVELOPMENT COUNTRIES AND INDONESIA, KOREA PAKISTAN, PHILIPPINES AND THAILAND AMONG LDCS) TO POINT OUT SERIOUS REPERCUSSIONS IF BOARD FAILS TO ACCEPT 9.15 PERCENT RATE. IN THIS REGARD, YOU MIGHT WISH TO NOTE THAT (A) ANY EROSION FROM PROPOSED RATE COULD SET UNFORTUNATE PRECEDENT FOR FUTURE AND COULD HAVE ADVERSE EFFECT ON USG EFFORTS TO OBTAIN FUNDS FOR ADB FROM U.S. CONGRESS; AND (B) REDUCTION FROM PROPOSED RATE COULD REACT UNFAVORABLY REGARDING PROPOSED ADVANCE BORROWING IN U.S. MARKET. YOU SHOULD ALSO NOTE THAT ITEM IS SCHEDULED FOR CONSIDERATION BY ADB BOARD OF DIRECTORS ON THURSDAY, JULY 29.

4. IF USG DECIDES TO PROCEED ON ABOVE BASIS, WE SUGGEST THAT U.S. MISSIONS BEING CONTACTED BE ASKED TO REPEAT MEMBER GOVERNMENT RESPONSES FOR USADB IN VIEW TIME ELEMENT. SULLIVAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEVELOPMENT BANKS, FINANCIAL PROGRAMS, INTEREST RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MANILA10841
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760283-0723
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760729/aaaaayqd.tel
Line Count: 96
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 MANILA 10571
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 27 SEP 2004
Review Event:
Review Exemptions: n/a
Review History: WITHDRAWN <03 JUN 2004 by CunninFX, REFER TO TREAS>; RELEASED <27 SEP 2004 by BoyleJA>; APPROVED <29 SEP 2004 by izenbei0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ADB LENDING RATE AND COMMITMENT CHARGE
TAGS: EAID, EFIN, US, RP, ADB
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006